

An Leas-phrìomh Mhinistear agus Ath-shlànachadh
Cobhid
Deputy First Minister and Cabinet Secretary for Covid
Recovery
John Swinney MSP



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Copy to: Councillor Steven Heddle
The Leaders of all Scottish local authorities

15 December 2022

Dear Shona,

Today I formally set out the Scottish Government's proposed Budget for 2023-24 in a statement to the Scottish Parliament. I write now to confirm the details of the local government finance settlement for 2023-24.

As discussed when I met with you, the Resources Spokesperson, and Group Leaders on 1 December, we are facing the most challenging budget circumstances since devolution. This is primarily due to over a decade of austerity eroding financial settlements from Westminster, compounded by the impact of Brexit and the disastrous mini-budget. Scottish and local government are experiencing unprecedented challenges as a result of the UK Government's economic mismanagement, resulting in rising prices and soaring energy bills, with inflation estimated to be running at a 41 year high of 11.1% at the time of the Chancellor's Autumn Statement.

My Cabinet colleagues and I have engaged extensively with COSLA Leaders and spokespersons over the course of the year and there is collective understanding that this economic context is also having a significant impact upon local authorities. Councils, like the Scottish Government and rest of the public sector, are working hard to support people through the cost crisis. In this regard we are hugely grateful to councils for their hard work and we fully appreciate that no part of public life has been immune from taking deeply difficult decisions to live within the current fiscal reality.

I have already taken the unprecedented step of making a statement to Parliament to reprioritise over £1.2 billion of funding as part of my Emergency Budget Statement. Despite the scale of that challenge the Scottish Government actively chose to protect Councils during

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that exercise and increased the funding available to councils whilst most other portfolios were required to make significant savings.

The Scottish Government's revenue raising powers offer limited flexibility to deal with challenges of this magnitude. I wrote to the Chancellor on 19 October to highlight the impact of inflation on the Scottish Government's budget and to call for additional funding to help us deal with these inflationary pressures and to support public services.

As we face these challenges, and in the absence of meaningful change in direction by the UK Government, we need to work together to ensure that we deliver for people within the financial constraints we have. I very much welcomed the open discussion on 1 December about how we focus our efforts on our shared priorities, and to that end we are offering to jointly develop an approach to working within this budget which delivers our ambitions.

The Local Government Settlement

Before turning to that offer, I will first set out how I have sought to support local government through the budget itself.

The Resource Spending Review guaranteed the combination of General Revenue Grant and Non-Domestic Rates Income at existing levels between 2023-24 and 2025-26 including the baselining of the £120 million that was added in Budget Bill 2022-23. The Budget delivers those commitments in full, despite the fact that the UK Government's Autumn Statement reversed their previous position on employer National Insurance Contributions resulting in negative consequentials. This decision has conferred around £70 million of additional spending power for local government.

The difficult decisions in the Emergency Budget Statement provided one-off additional funding to support enhanced pay deals for local government staff. We recognise the role that increasing pay for local authority employees, especially those on lower incomes, plays in helping more people cope with the cost crisis, but the fact remains that every additional pound we spend on recurring pay deals, must be funded from elsewhere within the Scottish Government budget. I therefore hope that councils will welcome the fact that the budget baselines the additional £260.6 million allocated in 2022-23 to support the local government pay deal and also delivers additional funding to ensure that payment of SSSC fees for the Local Government workforce will continue to be made on a recurring basis.

Despite the challenging budget settlement I have sought to increase funding as much as I can. I have been able to increase General Revenue Grant by a further £72.5 million, taking the total increase to over £550 million. I have also ensured that we have maintained key transfers worth over £1 billion and added a further £102 million of resource to protect key shared priorities particularly around education and social care.

The Resource Spending Review also confirmed the outcome of the 2021 Capital Spending Review and this has been supplemented by £120.6 million mentioned as part of the support to the local government pay deal plus a further £50 million to help with the expansion of the Free School Meals policy.

With regards to that wider settlement, we are providing £145 million to be used by councils to support the school workforce. The Cabinet Secretary for Education and Skills has written separately to COSLA on this matter.

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I am also very grateful for the work undertaken through the Early Learning and Childcare Finance Working Group to develop and scrutinise detailed analysis of the delivery costs for the 1140-hour commitment. This is crucial to ensuring we meet our shared commitment to providing transparency and value for money in a significant programme of public sector investment. The Early Learning and Childcare settlement for 2023-24 takes account of significant declines in the eligible population in recent years and makes provision for important policy and delivery priorities based on feedback from COSLA and local government colleagues.

As set out in separate detailed communications, the Health and Social Care Portfolio will transfer net additional funding of £95 million to Local Government to support social care and integration, which recognises the recurring commitments on adult social care pay in commissioned services (£100 million) and inflationary uplift on Free Personal Nursing Care rates (£15 million). This is offset by the non-recurring interim care money ending (£20 million).

The overall transfer to Local Government includes additional funding of £100 million to deliver a £10.90 minimum pay settlement for adult social care workers in commissioned services, in line with Real Living Wage Foundation rate.

The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2022-23 recurring budgets for services delegated to IJBs and therefore, Local Authority social care budgets for allocation to Integration Authorities must be at least £95 million greater than 2022-23 recurring budgets.

The consolidation of funding into the new £30.5 million homelessness prevention fund not only reflects the importance local and national government jointly place on homelessness prevention and earlier intervention, but also simplifies the homelessness funding landscape. This provides more flexibility for council and greater clarity for citizens who want to understand how national and local government are working jointly to improve outcomes.

In total, including the funding to support the devolution of Empty Property Relief, the budget increases the local government settlement by over £550 million relative to the Resource Spending Review position.

I am conscious of the position you set out to me, and the challenges which councils will still face, like all parts of the public sector, in meeting current and emerging demands from within this budget. Therefore, I am offering to continue to work with you with real urgency in the coming weeks to determine how we might jointly approach these challenges and ensure sustainable public services to support our shared priorities now and in the future.

Delivering for People and Communities by Working Together Flexibly

Through the Covid Recovery Strategy, Scottish Government and Local Government, committed to work together to address the systemic inequalities made worse by Covid, to make progress towards a wellbeing economy, and accelerate inclusive person-centred public services.

We must sustain this focus on the outcomes we care most deeply about, in particular:

- i) tackling child poverty,

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- ii) transforming the economy to deliver net zero, and
- iii) sustaining our public services.

No single part of the public service landscape can deliver these outcomes alone. We need to work in partnership to deliver outcomes for people and places across Scottish and local government as our two spheres of government, recognising our joint accountability for change. Local service providers have the critical relationships with people and communities and must be empowered and enabled to organise services around their needs, rather than the funding stream, policy area or body delivering. By doing so, we will collectively reduce complexity and barriers for people, deliver improved outcomes and reduce inequalities among communities in Scotland, and enable the fiscal sustainability of key public services.

Strong local leadership will make this approach work in practice, supported by a national vision and learning from good practice. Community Planning Partnerships are the mechanism in which we need to see a collective and intensive effort to align available resources into prevention and early intervention focused on delivering shared outcomes for people and place. Local authorities have the leading, critical role in CPPs, but CPPs also involve a range of public bodies which must play their part, alongside local third sector and community bodies.

The Scottish Government is committed to building trust and maximising benefits for our citizens and communities. We will act to:

- align budgets to maximise impact on outcomes;
- remove barriers which hinder flexibility in funding, and in the design and delivery of services around people, helping to embed the service changes flowing from this;
- require our partner public bodies and agencies to work collaboratively within CPPs to deliver shared outcomes, take action to address local priorities and align local funding, this will be supported by our Place Director network;
- enable third sector partners to participate and contribute in local plans, including through flexible funding.

Local authorities are key partners in this endeavour. Through COSLA, we will invite local authorities to work with us to:

- prioritise spending to agreed key outcomes for which we are jointly accountable, with clarity as to the way in which we will work together to secure and measure success;
- ensure that joint plans of activity across Community Planning Partnerships can deliver those outcomes in a way which reflects the needs of a local communities, and to robustly account for delivery of these plans;
- share resources across CPPs to deliver these activities in whatever way is most effective;
- continue to share and learn from best practice nationally and locally to embed person centred approaches that work for individuals and communities, and reduce barriers and duplication in our joint systems.

We will seek to agree jointly how to put this commitment into operation practically over the coming months and to develop robust assurance that demonstrates delivery of critical priorities and reform. We need to be data driven and transparent, reflecting the accountability which comes with responsibility. Scottish and Local Government need to agree metrics and mechanisms for monitoring impact and outcomes, so that intervention and resource can be

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targeted where it is most needed to secure improvement. This will include seeking to reduce unnecessary reporting.

This approach is aimed at building trust and relationships and as well as adopting it through this budget, it will be reflected in the partnership agreement that will underpin the New Deal for Local Government set out in the Resources Spending Review. In order to offer flexibility across funding and work towards removal of ring fencing, the Scottish Government will need clear commitment from local government about delivery of agreed joint outcomes.

The Cabinet Secretary for Social Justice, Housing and Local Government would welcome an initial discussion on this when you meet next week at the Strategic Review Group, in order to pave the way for work at pace among our officials.

Non-Domestic Rates and Other Local Taxation Measures

As Leaders will be aware, the 1 April 2023 marks the date of the next Non-Domestic Rates revaluation, and the first to reflect the reforms introduced by the independent Barclay Review of Non-Domestic Rates. These reforms, including the move to three-yearly revaluations and a one-year tone date, will ensure that property values more closely align with prevailing property market conditions in Scotland.

The Budget freezes the poundage and acknowledges the impact of the revaluation by introducing a number of transitional reliefs to ensure that any properties which see significant increases in their rates liabilities following the revaluation do so in a phased manner. The Barclay Review also recommended a number of reforms to the Non-Domestic Rates appeals process which are critical to ensuring the deliverability of the three-yearly revaluation.

The new two-stage appeals process will commence on 1 April 2023 alongside the transfer of functions of Valuations Appeals Committees to the Scottish Courts and Tribunals Service. The Non-Domestic Rates (Scotland) Act 2020 and subsequent regulations have, amongst other things, provided Assessors and Councils with greater information-gathering powers and have also increased the transparency of the process for ratepayers including, for the first time, the provision of draft values on 30 November 2022. These reforms are intended to reduce the reliance on the formal appeals process to deliver accurate rateable values and the Act also provided a legal basis for the pre-agreement of values.

Many of the reforms of the Barclay Review seek to incentivise behaviour changes to deliver a more effective and efficient system. Reflecting the ability to pre-agree values and the importance of building resilience in the new appeals system to support the transition to more frequent revaluations, Ministers plan to make administrative changes to the funding treatment of appeals associated with public sector bodies, including councils.

The current system essentially sees the public sector challenge other parts of the public sector with private sector advisor fees effectively extracting resources from public services. The conclusion of the process determines funding allocations outside the remit of the annual budget framework with successful public bodies benefiting financially to the detriment of other ratepayers and public services. The volume of public sector appeals also serves to delay access to justice for other appellants.

Ministers do not believe that this offers value for money for the public. Whilst the right to propose and appeal will remain, to incentivise the use of the pre-agreement powers and

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discourage the continued reliance on the formal appeals process, from 1 April 2023, all bodies, including councils, who receive their funding through the Scottish Government budget process, will see the financial incentive for proposing and appealing removed.

Where a property occupied by a public body is subject to a successful proposal or appeal, the financial benefit from the reduction in rateable value will result in a downward re-determination of revenue allocations at a subsequent fiscal event. On this basis, Ministers will be encouraging all public bodies to begin the process of pre-agreement with their local assessors ahead of 1 April 2023 to ensure that values are accurate prior to the start of the revaluation and that this approach be adopted by default for future revaluations.

The Non-Domestic Rates (Scotland) Act also had the effect of abolishing Empty Property Relief as agreed with the Scottish Green Party a part of the 2019-20 Budget process. Unoccupied properties will therefore be liable for full rates from 1 April 2023 if relief is not available under a local scheme. To effectively devolve responsibility for the relief and provide greater fiscal empowerment for council, as agreed by the Settlement and Distribution Group, the budget provides an additional £105 million of General Revenue Grant, significantly more than the cost of maintaining the national relief in light of the subsequent decision to freeze the poundage.

In addition, following consultation with members of the Institute of Revenues, Rating and Valuation, we will bring forward regulations intended to empower councils to tackle rates avoidance more effectively. In combination, the funding transfer and the proposed new powers will provide significant additional fiscal flexibility to councils to administer support for unoccupied properties in a way that is tailored to local needs.

Furthermore, I can confirm that the Scottish Government will not seek to agree any freeze or cap in locally determined increases to Council Tax, meaning each council will have full flexibility to set the Council Tax rate that is appropriate for their local authority area. I do hope that councils will reflect carefully on the cost pressures facing the public when setting council tax rates.

We are also committed to expanding councils' ability to raise additional revenues and discussions among our respective officials have commenced to identify a structured approach to future potential local taxes. At the same time, councils now have the power to establish local workplace parking levy schemes and our work to introduce a local visitor levy bill in this parliamentary session is on track.

Finally, I am conscious that, while it is not directly applicable to Local Government pay negotiations, many stakeholders have used Public Sector Pay Policy as a reference point in previous years. For this reason, I feel it is important to highlight to you that we have taken the decision not to announce pay uplifts or publish a Public Sector Pay Policy for 2023-24.

There are a number of reasons for this, not least among them the desire to approach pay negotiations differently for 2023-24, the imperative for reform and the need to ensure the sustainability of public sector pay and workforce arrangements. This does not change our view that our job in the midst of a cost crisis is not to press down on pay, particularly the most vulnerable. We will be sharing further guidance in relation to 2023-24 pay at an appropriate point in the new year which is likely to be considered by Trade Union colleagues relevant in Local Government pay negotiations, if you agree I will ask my officials to engage

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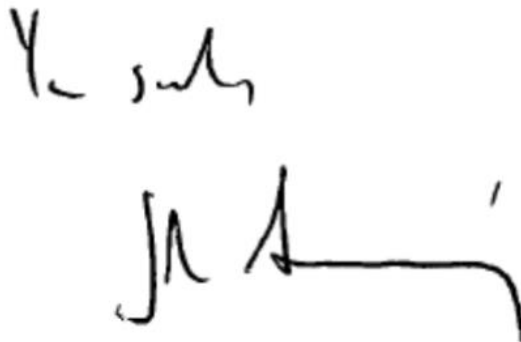


with COSLA officers as this develops to determine if you might wish to formally endorse or adopt it.

I am under no illusions about the challenging fiscal environment we face across all of our public services over the next few years but I have sought to protect the local government settlement as far as possible with an overall settlement of over £13.2 billion. The budget goes significantly beyond the commitments made in the Resource Spending Review. It provides substantive additional funding and it does not pass on the negative consequential for employer national insurance contributions resulting from of the Autumn Statement. Importantly, it provides a number of fiscal and policy flexibilities. Alongside the settlement, I hope my offer to build on the Covid Recovery Strategy will be warmly and urgently received, to enable us to make urgent progress on the New Deal.

I want us to work in partnership, to build on the Covid Recovery Strategy and agree an approach which improves delivery of sustainable public services, designed around the needs and interests of the people and communities of Scotland, at its heart.

I would welcome confirmation that you are supportive of the proposed joint work outlined above and I look forward to working with COSLA and Leaders in the months ahead to deliver on our shared priorities.



JOHN SWINNEY

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